

India Ratings Upgrades Aditya Birla Housing Finance & its NCDs to 'IND AAA'; Outlook Stable

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India Ratings and Research (Ind-Ra) has upgraded Aditya Birla Housing Finance Limited's (ABHFL) Long-Term Issuer Rating to 'IND AAA' from 'IND AA+' with a Stable Outlook and affirmed its Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR20	IND AAA/Stable	Upgraded
Subordinated debt (Sub-debt)*	-	-	-	INR10	IND AAA/Stable	Upgraded
Commercial paper (CP)	-	-	7-365 days	INR15	IND A1+	Affirmed

* Details are given in Annexure below

The upgrades reflect the strong credit profile of Grasim Industries Limited, which is the ultimate parent of ABHFL. ABHFL, which was earlier a subsidiary of Aditya Birla Nuvo Limited, has become the step-down subsidiary (through Aditya Birla Capital Limited) of Grasim Industries post the merger of Aditya Birla Nuvo with Grasim Industries.

The financial services business has increasingly become important to Grasim Industries and the larger Aditya Birla Group franchise from a long term perspective. Ind-Ra understands that financial services remains a strong focus area for the Aditya Birla Group and has a close oversight from the top management, increasing the likelihood of active support, in the event of liquidity tightness or through timely availability of growth capital. While ABHFL's current franchise remains modest, it complements the group's philosophy of providing complete product suits in the financial services segment.

KEY RATING DRIVERS

Strong Parent: The ratings factor in Ind-Ra's expectation of timely financial support to financial services and consequently to ABHFL from Grasim Industries. The Aditya Birla Group considers ABHFL's lending business critical to its long-term prospects and has received regular equity infusion (INR6.7 billion during October 2014-September 2017). Grasim Industries has a strong operating profile with adequate resources in terms of on-book liquidity to support ABHFL's requirements. The Aditya Birla Group has articulated that there is a close co-ordination between the management of the group companies and the flow of resources from Grasim Industries for catering the growth and liquidity needs of the financial services business.

ABHFL, although currently small in proportion to its consolidated financial services business, is in the high growth segment and also compliments the group's philosophy of providing complete product suits in the financial services segment. Ind-Ra's support expectation from the group will be a key rating driver for ABHFL over the next few years, as equity injections would be necessary to support ABHFL's above average loan growth as well as provide a buffer against any higher-than-expected credit losses.

Gradually Diversifying Funding Profile: Banks constitute the bulk of ABHFL's funding requirement (1HFY18: 62%; FY17: 64%; FY16: 92%). However, the company is diversifying its funding sources with increased share of market borrowings (NCDs and subordinated debt, 1HFY18: 22%; FY17: 19%; FY16: 2%). CPs formed 16% of the borrowing mix as of September 2017. While ABHFL has a maximum cumulative gap of INR16.2 billion (27.6 % of total assets as of 1HFY18) in the structural liquidity statement (up to one-year tenure), it maintains adequate unutilised bank lines to cover up these gaps. Moreover, ABHFL can tap broader group liquidity, which is sufficient to support short-term mismatches in a tight liquidity situation, if required.

Operating Metrics to Stabilise: While the prime housing segments infrastructure seems to be in place, ABHFL is investing in the affordable housing infrastructure setup. ABHFL turned profitable in 3QFY17 and efficiencies of scale is likely to kick in as it expands its loan portfolio.

Moderate Capitalisation: ABHFL's capitalisation remained average with an equity to total assets ratio of 10.6% in 1HFY18. The group remains committed to regular capital infusions in ABHFL to support its growth plans. However, the recent listing of ABCL, the holding company for ABHFL (100%), will provide additional access to capital markets for raising growth capital, as and when required.

Asset Quality Performance to be Seen: While ABHFL's gross non-performing assets ratio (1HFY18: 0.43%) remained comfortable, the underlying portfolio is yet to be seasoned and established through the cycle credit costs. Ind-Ra believes the asset quality performance to be a key monitorable as the loan book seasons. Asset quality performance especially outside the co-shared branches with ABFL would be a key monitorable.

RATING SENSITIVITIES

Negative: Dilution of support expectations either on account of inability to manage asset quality, especially in view of the high loan growth strategy, resulting in higher-than-expected losses or diminished business prospects, or otherwise could lead to Long-Term Issuer Rating downgrade. Lack of timely support in terms of equity capital for growth or a liquidity event would also lead to a negative rating action. Any deterioration in the credit profile of Grasim Industries is also likely to impact the ratings.

COMPANY PROFILE

ABHFL commenced operations in October 2014 and is a step-down subsidiary of Grasim Industries. The Aditya Birla Group is among the Fortune 500 league companies. The company is largely focused on housing loans and loans against property to the retail segment and has assets under management of INR 57.8 billion as of 1HFY18. Its business is largely complementary to Aditya Birla Finance Limited's ('IND AAA/Stable/IND A1+') diversified lending business. ABHFL benefits from over 1,500 channel partners for retail loan sourcing.

ABHFL is an indirect subsidiary of Grasim Industries via the ultimate parent's 55.99% shareholding in ABCL. On the other hand, the promoters and the public hold 16.77% and 27.24%, respectively.

FINANCIAL SUMMARY

Particulars	FY17	FY16
Total assets (INR million)	41,591.9	19,851.1
Total equity (INR million)	3,661.9	2,036.9
Net profit (INR million)	-155.0	-302.2
Return on average assets (%)	-0.50	-2.84
Equity/assets (%)	8.8	10.26
Tier 1 capital (%)	10.12	11.80
Source: ABHFL, Ind-Ra's analysis		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	29 September 2017	10 March 2017	17 March 2016
Issuer rating	Long-term/Short-term	-	IND AAA/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+
NCDs	Long-term	INR20	IND AAA/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Sub-debt	Long-term	INR10	IND AAA/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
CP	Short-term	INR15	IND A1+	IND A1+	-	-

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (billion)	Rating/Outlook
NCD	INE831R07011	22 March 2016	8.95	20 March 2026	INR0.2	IND AAA/Stable
NCD	INE831R07029	22 March 2016	8.95	22 March 2021	INR0.5	IND AAA/Stable
NCD	INE831R07037	20 April 2016	8.75	20 April 2021	INR0.15	IND AAA/Stable
NCD	INE831R07045	21 September 2016	8.15	21 September 2018	INR1	IND AAA/Stable
NCD	INE831R07052	21 September 2016	8.30 (XIRR basis)	12 September 2019	INR0.75	IND AAA/Stable

NCD	INE831R07078	16 December 2016	7.80	13 December 2019	INR0.5	IND AAA/Stable
NCD	INE831R07086	16 December 2016	7.80 (XIRR basis)	13 August 2020	INR 0.5	IND AAA/Stable
NCD	INE831R07094	23 December 2016	7.80	20 December 2019	INR0.5	IND AAA/Stable
NCD	INE831R07102	16 February 2017	8.05	14 February 2020	INR 0.71	IND AAA/Stable
NCD	INE831R07110	9 March 2017	7.85	9 June 2020	INR0.3	IND AAA/Stable
NCD	INE831R07128	10 March 2017	8.00	10 March 2022	INR0.5	IND AAA/Stable
NCD	INE831R07136	20 March 2017	8.00	18 March 2022	INR0.5	IND AAA/Stable
NCD	INE831R07144	27 March 2017	7.90 (XIRR basis)	16 April 2020	INR0.6	IND AAA/Stable
NCD	INE831R07151	3 April 2017	8.00	1 April 2022	INR0.45	IND AAA/Stable
NCD	INE831R07169	7 June 2017	8.00	7 June 2022	INR1	IND AAA/Stable
NCD	INE831R07177	1 August 2017	7.60	30 July 2021	INR0.85	IND AAA/Stable
NCD	INE831R07185	8 September 2017	7.60	8 September 2022	INR0.2	IND AAA/Stable
		Total			INR8.76	
		Unutilised NCDs			INR11.24	

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Rated Amount (billion)	Rating/Outlook
Sub-debt	INE831R08019	4 July 2016	9.10	3 July 2026	INR0.150	IND AAA/Stable
Sub-debt	INE831R08027	7 July 2016	9.10	7 July 2026	INR0.100	IND AAA/Stable
Sub-debt	INE831R08035	13 July 2016	9.10	13 July 2026	INR0.150	IND AAA/Stable
Sub-debt	INE831R08043	26 July 2016	8.99	24 July 2026	INR0.250	IND AAA/Stable
Sub-debt	INE831R08050	17 May 2017	8.50	14 May 2027	INR0.600	IND AAA/Stable
Sub-debt	INE831R08068	1 June 2017	8.50	1 June 2027	INR0.750	IND AAA/Stable
		Total			INR2.0	
		Unutilised			INR8.0	

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

[Non-Bank Finance Companies Criteria](#)

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